

Opening Statement

Chairman Michael G. Oxley
Committee on Financial Services

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**Argentina's Financial Crisis – Causes and Solutions. Subcommittee on
International Monetary Policy and Trade**

I want to take this opportunity to thank Chairman Bereuter for holding this second hearing on the crisis in Argentina and the role of the IMF. We have seen over the past several months the third largest country in Latin America on the brink of both economic and social collapse. The situation in Argentina is tragic, but it is a good lens through which we can examine changes that may need to be made in the operation of the International Monetary Fund.

Following last December's decision by the IMF to stop lending to Argentina, the government defaulted on its foreign debt and a succession of administrations attempted to restore economic order to the country. Some stability has returned, and Argentina has begun to make the tough fiscal, monetary and political necessary to implement reform. Argentina is a valuable ally of the United States in South America and I hope that they can get their economic house in order. The peso is now floating on the international market and that the government has approved a budget that attempts to control spending. In particular, recently enacted reform in the relationship between the provincial and federal governments is critical to reducing deficits and reigning in spending. However, there are parts of the economic reform package that are of concern. Specifically, the President of Argentina has announced a proposal to levy a one time tax on all private utility and energy companies to support social programs by the hardest hit by the crisis. Some question whether additional taxes should be levied on companies that are currently struggling in the midst of this crisis. Many of those companies are based in the United States, and additional taxation could force them to abandon projects they are developing or maintaining in Argentina. Additionally, a proposal to pay for contracts in pesos, which were negotiated in good faith to be paid in dollars, is troubling. By changing the terms of those agreements, Argentina casts doubts on the ability of U.S. based companies to rely on assertions made by its government in the future. I was encouraged by Under Secretary Taylor's testimony last month that the Department of Treasury is working to ensure that U.S. interests are being

treated on a level playing field with other foreign interests. I trust those efforts are continuing.

As the largest shareholder in the IMF, the United States has the responsibility to ensure that the resources of that institution are being used wisely. I believe that the IMF must take a hard look at its lending policies and ensure it is granting loans to countries that have sound economic policies. The IMF must ensure that the financing it extends is making the greatest possible impact on improving the lives and economies of developing nations. Last week, before this Committee, the Secretary of the Treasury outlined the efforts the Bush Administration is pursuing to ensure that the IMF cultivates growth and productivity in the regions where it operates. I agree with Secretary O'Neill that increased transparency in the international marketplace, a narrowed focus on the IMF's core mission, and a policy of not bailing out countries that do not pursue sound economic programs are key goals for the future operation of the IMF. However, the IMF must also work with recipient countries to ensure that they know what problems must be addressed prior to funding being cut off or being resumed.

Finally, the IMF has proposed a plan to encourage an orderly workout with creditors when sovereign debt is unsustainable. While this proposal is in the early stages, I am interested in the opinions of our witnesses as to whether such a proposal is needed and if so, how it could be established.

I would like to welcome our witnesses, and look forward to hearing from this panel on issues relating to the IMF and Argentina. I look forward to a lively discussion from all angles of the ideological spectrum. Thank you again, Chairman Bereuter.

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